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MAR 10 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Simplification of the Depreciation Prescription Process	)	CC Docket No. 92-296
	)	
	)	

COMMENTS

OF

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

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Summary

COMMENTS OF THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

CC Docket No. 92-296 March 12, 1992

The Commission's goal of universal service has been attained, and the long period of monopoly market stability is past. Telecommunications markets now require pro-active risk-taking, focused market strategies, and accelerated investments in state-of-the-art technologies.

The current depreciation prescription process is outmoded, and does not respond quickly to the new changes in competition, regulation and technology. SNET agrees that simplification is needed to reduce the regulatory burdens placed upon carriers and the Commission, but also to improve the efficiencies of carriers operating under the Commission's price cap plan.

Competition in local access markets is expanding at a rapid rate, but competitive service providers are altogether free from the capital recovery regulations that are placed on the LECs. To foster investment in new technologies and to achieve the Commission's goal of infrastructure development, LECs must be permitted to recover their investments in a timely and cost-effective way.

The Commission's concern about "manipulation" of depreciation expenses to avoid sharing is unfounded. Major financial and operational penalties will accrue if a LEC sets uneconomic manipulative rates. Significant checks and balances

prevent LECs from "manipulating" depreciation expenses. The Communications Act provides for imprisonment or fines for those who willingly make false accounting entries. Competition itself is a most effective check and balance. Ethical, financial and regulatory principles obligate carriers to report depreciation expenses accurately. GAAP, the USOA, the SEC and the Commission all require accurate reporting. Forecasting is not precise enough to permit setting manipulative rates. Price cap carriers simply cannot practically manipulate depreciation expenses to avoid sharing, and in fact, would create more serious business problems for themselves if they did so.

The Price Cap Carrier Option best advances the Commission's objectives because the depreciation rates authorized by the Commission for price cap carriers have no effect upon the access charges consumers pay. The Price Cap Carrier Option is not in conflict with the Communications Act of 1934, as the Commission always has "the last word" in the prescription of rates. This Option is the most effective of the four Options in meeting the Commission's objectives, because it reduces the costs and regulatory burdens of both the carriers and the Commission, responds to and stimulates development of advanced technologies and competition, while still satisfying the requirements of the Act.

The Commission's Depreciation Rate Range Option would offer the Commission and the carriers administrative cost savings,

[redacted]

that would be responsive to their individual plans and markets. There is no practical reason to prevent this Option from being applied to all accounts. SNET recommends that ranges for all accounts be established initially, and that the range for each account be wide enough to permit a LEC to select a rate appropriate for that particular company.

The Commission's Basic Factors Range Option would provide some administrative savings and reduced regulatory burdens compared to the current process if the Commission implements it for all accounts. This Option would have potential to meet the stated objectives, if the adopted ranges are broad, are based upon proposed factors, and are implemented for all accounts.

The Depreciation Schedule Option should not be adopted. It appears that all carriers would be required to use the same Commission-determined schedule, inhibiting a carrier from reflecting its own pattern of investments and retirements. This option would deviate greatly from accuracy in matching allocation of costs to actual plant consumption, and therefore should not be adopted.

The treatment of salvage and cost of removal should not be changed at this time. SNET believes the proposal would not simplify its own depreciation process, but in fact would produce other administrative burdens. The current process conforms to GAAP, and should be retained.

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THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

The Southern New England Telephone Company (SNET) pursuant to the Notice of Proposed Rulemaking[1] of the Federal Communications Commission (Commission), hereby respectfully files its Comments in this proceeding.

SNET welcomes the opportunity to support the Commission's proposals "that would simplify procedures and reduce associated costs in our depreciation prescription process."[2] As a price cap company, SNET confines its comments here to that regulatory perspective.

SNET also supports the Comments filed today by the United States Telephone Association (USTA) in this proceeding. USTA is submitting an analysis of LEC savings associated with the

1 In the matter of Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Notice of Proposed Rulemaking, FCC 92-537, released December 29, 1992, 8 FCC Rcd 146 (1993) (Notice).

2 Notice, para. 1.

Commission's proposals. SNET contributed to this analysis and supports the conclusion that the Price Cap Carrier Option is the most cost-effective proposal. The relative savings shown in the USTA submission are indicative of SNET's relative savings.

I. Introduction.

In the past, the Commission's policy was to attain universal service by keeping ratepayer rates as low as possible. This was accomplished in part by keeping depreciation rates, expenses and resulting revenue requirements artificially low. Technological progress was slow, and competition was almost non-existent.

The Commission's goal of universal service has been attained.[3] The Commission's current regulatory policy -- local access competition -- is stimulating new market approaches by consumers and regulators. Price cap regulation has been implemented for the dominant carriers in the interstate and access markets. Access rates are now determined, not by revenue requirements, including depreciation expenses, but by marketplace realities. "Technology and market forces are now being unleashed in the local exchange, just as they were unleashed in long-distance markets fifteen years ago."[4] Local access competition is becoming widespread, pervasive, and aggressive.

The long period of monopoly market stability is past. The engineering-driven network is obsolete, and a "technology push"

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3 "94.7% of those adults in the civilian noninstitutionalized population have a telephone...the highest level ever reported." FCC Releases Telephone Subscribership Data, FCC Mimeo 23619, released June 26, 1992, pg. 3. Connecticut's percentage was 97.4%, third highest in the nation (Table 2).

4 Peter W. Huber, Michael K. Kellogg and John Thorne, The Geodesic Network II: 1993 Report on Competition in the Telephone Industry, The Geodesic Company, Washington, D.C., 1992 (Geodesic II), pg. 1.42.

paradigm has arrived.[5] Telecommunications markets now require pro-active risk-taking, focused market strategies, and accelerated investments in state-of-the-art technologies.[6] Regulatory initiatives are putting even more pressure on local exchange carrier facilities and operations.[7] Local exchange carriers (LECs), while facing greatly increased competition, will still be required to provide universal service.[8]

These changes have radically transformed the conditions under which the LECs operate. It is now time for the Commission to adjust the depreciation prescription process to accommodate this dynamic environment it has fostered.

II. The Commission Should Simplify The Depreciation Prescription Process.

As the Commission has correctly observed, the current process is outmoded, and does not respond quickly to changes in

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5 See Dr. Joseph S. Kramer, "The Effects of Competition on Dominant Carriers: Common Patterns of Worldwide Change," Deloitte Touche Tohmastsu International, Washington, D.C.

6 For example, SNET has over the past 5 years increased its plant balances in technology accounts (such as digital ESS, digital circuit, and aerial nonmetallic cable) by 340%, as compared to 33% for other large plant accounts (such as buildings, aerial metallic cable, underground metallic cable, computers and conduit).

7 See, e.g., Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222, Report and Order and Notice of Proposed Rulemaking, released October 19, 1992, FCC 92-440, 7 FCC Rcd 7369 (1992) (Special Access Interconnection Order). See also, Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, Expanded Interconnection, Phases I & II, Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Second Notice of Proposed Rulemaking, released October 16, 1992, FCC 92-441, 7 FCC Rcd 7740 (1992) (Switched Access Interconnection Proposal). See further Transport Rate Structure and Pricing, CC Docket No. 91-213, Report and Order and Further Notice of Proposed Rulemaking, released October 16, 1992, FCC 92-442, 7 FCC Rcd 7006 (1992).

8 See Letter of James H. Quello, Chairman, Federal Communications Commission, to The Honorable Edward J. Markey, Chairman, Subcommittee on Telecommunications & Finance, U.S. House of Representatives, March 1, 1993, Attachment, pgs. 4-5.

competition, regulation and technology.[9] SNET agrees that simplification is needed to reduce the regulatory burdens placed upon carriers and the Commission, but also to improve the efficiencies of carriers operating under the Commission's price cap plan.[10] For the benefits of the Commission's initiatives to be fully realized, state regulatory bodies should also adopt prescription simplification measures.

While simplification is highly commendable as a regulatory objective, the recovery of carrier capital assets must still be based upon the economic realities of actual plant consumption. Carriers must be able to reflect the conditions of the areas in which they provide their services. Allocation of plant costs to expense must match as closely as possible the consumption of the plant in providing service,[11] commensurate with efficient administrative costs of determining that allocation.[12] SNET supports fully the Commission's objectives of simplification and cost reduction, and believes that these objectives are best accomplished with carrier flexibility and recognition of the market and economic conditions under which they provide service.

SNET also believes that "expense certainty"[13] is not an objective that is appropriate in and of itself. To make depreciation expense amounts "certain" would require unchanging

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9 Notice, paras. 7 - 8.

10 The Commission has ruled that under price cap regulation, changes in depreciation expenses are not flowed through to the price cap index. 5 FCC Rcd 6786, 6809 (1990). For carriers still under rate of return regulation, however, changes in depreciation expenses are flowed through to access rates.

11 See, Notice, para. 33.

12 SNET notes here that nonregulated firms operating in competitive environments expend far fewer resources to develop depreciation rates than do subject carriers.

13 Notice, para. 33.

and inflexible capital recovery parameters, necessarily detached from marketplace and economic realities. Expense certainty would require arbitrary allocations, resulting in large reserve imbalances. SNET recognizes that regulators, consumers and investors should be able to anticipate depreciation expense levels; however, "expense certainty" would arbitrarily assign costs to customers which should not bear them, as plant consumption shifts with evolving markets.[14]

SNET supports the Commission's simplification initiatives, and believes that they must be implemented in ways which allow carriers to use efficiently derived, economic capital recovery rates.

III. Simplification Will Advance The Commission's Goals.

The Commission has long espoused competition and infrastructure development as its primary goals. The proposals it advances in this Docket support these goals. However, the Commission has underestimated the level of competition facing the LECs.[15] "[T]he 'natural monopoly' in the local exchange is in fact riddled with competition."[16] Competitors will capture $2 billion of local exchange revenues in 1993; "[t]heir effect is

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14 "Since some classes of customers will have competitive alternatives in the future they lack now, it will be difficult or impossible in the future to force these customers to pay for underdepreciated plant which serves them today. The result will be increasing pressure on those customers with fewer alternatives (smaller businesses and residences) to pay for underdepreciated plant." Direct Testimony of John A. Sadek, Vice President and Comptroller, before the State of Connecticut Department of Public Utility Control on behalf of The Southern New England Telephone Company, Docket No. 92-09-19, November 12, 1992, pgs. 23-24.

15 Notice, para. 4 .

16 Geodesic II, pg. 2.73 (emphasis added).

amplified beyond revenue, however, because they target the most profitable customers."[17]

Competition in the local exchange market is expanding at a rapid rate. The Commission took "a historic step in the process of opening the remaining preserves of monopoly telecommunications service to competition"[18] by requiring LECs to permit competitors to collocate and terminate their own facilities in LEC central offices, and by proposing "to remove additional barriers to the development of access competition"[19] with expanded interconnection and collocation for switched transport and switched access networks. These actions alone greatly increase the competition LECs are already facing:

> Even the basic distinction between "carriers" and "customers" is disappearing. Cable companies, competitive access providers, cellular companies, data carriers and others are sometimes regulated as private users, though in practice they provide carriage in direct competition with telcos.[20]

Commissioner Barrett has perceptively observed: "We cannot force the LECs to hold onto outdated or stranded investment and expect them to compete. New regulations must better reflect depreciation realities."[21] Competitive service providers are altogether free from the capital recovery regulations that are

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17 Deborah Eby, "U.S. Telecom Outlook: What's Hot? What's Not?" TE&M, February 15, 1993, pg. 19.

18 Special Access Interconnection Order, para. 1.

19 Switched Access Interconnection Proposal, para. 1.

20 Geodesic II, pg. 6.1.

21 Remarks by Andrew C. Barrett, Commissioner, Federal Communications Commission, "The Role of Regulation in the Transformation of Local Telecommunications to Competitive Markets" at the Institute of Public Utilities of Michigan State University Conference, Williamsburg, Virginia, December 9, 1991, pg. 3.

placed on the LECs.[22] Telephone companies are currently "saddled with large undepreciated investments in older technologies that newcomers have leapfrogged entirely."[23] Increased competition leads to shorter product cycles and lives,

> and puts incredible pressure on firms to constantly upgrade existing products and develop new ones.... A 21st century technology infrastructure program should consist of... establishing... a regulatory climate that fosters private sector investment....[24]

AT&T correctly relates that "dramatic and ongoing changes in technology used to provide new or improved telecommunications services [requires] continuous innovation and investment in state-of-the-art technology. A frequent consequence of these technological changes is to shorten the useful life of existing plant."[25]

This same transformation is burgeoning in the LEC industry, where the continuing trend is toward modularity and interconnectivity:

> The trend [in telephone central office switches] is to strip more and more functionality out of the switch, and to place features in separate units alongside (or at a distance).... The entire chain of production, from sand to silicon chip or fiber-optic glass, to software,

22 "If we want to provide the [LECs] with an incentive to invest in the network, we must see that they have prospects for financial gain, and some hope of controlling their destiny in much the same way as other providers." Remarks by Andrew C. Barrett, Commissioner, Federal Communications Commission before the Northern Telecom, Inc.'s Executive Marketing Symposium, Colorado Springs, Colorado, June 19, 1991, pg. 11.

23 Geodesic II, pg. 2.75 (citation omitted).

24 "Technology: The Engine Of Economic Growth; A National Technology Policy For America," Clinton-Gore National Campaign Headquarters, Little Rock, Arkansas, September 21, 1992, pgs. 4, 11.

25 American Telephone and Telegraph Company Petition for Waiver of the Commission's Depreciation Methods and Procedures, dated January 27, 1993, pg. 12. (See FCC Public Notice released February 11, 1993, DA 93-133) (AT&T Petition).

> and through finally to the dial tone in the telephone handset, has become part of the seamless whole.[26]

To foster investment in new technologies and achieve the Commission's goal of infrastructure development, LECs must be permitted to recover their investments in a cost-effective and timely way. "Present methods for calculating depreciation rates provide inadequate incentives to attract investment for innovation."[27] All carriers should be afforded flexibility in determining the rates at which they can depreciate their plant investment. Regulators should be able "to offer local phone companies accelerated depreciation on existing copper lines, in order to reduce their risk in deploying fiber."[28]

SNET believes that this proceeding provides the opportunity for the Commission to authorize more economic rates for capital recovery, in support of its objectives of competition and infrastructure development. Such rates are in the public interest and will stimulate the development of advanced telecommunications products and services, and robust competition.

IV. Increased Depreciation Expenses To Avoid Sharing Creates More Serious Business Problems.

In its Notice, the Commission states its concern that although price cap carriers are not allowed to pass along depreciation expense increases to ratepayers, those increases

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26 Geodesic II, pgs. 6.2 - 6.3.

27 U.S. Congress, Office of Technology Assessment, Critical Connections: Communication for the Future, OTA-CIT-407 (Washington, DC: U.S. Government Printing Office, January 1990), pg. 331 (citations omitted).

28 "Progressive Policy Institute Offers Plan For National Fiber Optic Network," Progressive Policy Institute, Washington, D.C., July 28, 1992, pg. 20.

could lead to lower earnings and therefore affect sharing.[29] The Commission implies that price cap carriers might have "unreasonable incentives" to avoid sharing,[30] and would "manipulate depreciation expenses in order to avoid the sharing obligation."[31]

SNET strongly believes that the Commission's concern about "manipulation" of depreciation expenses to avoid sharing is unfounded. Competition drives depreciation expenses to economic levels as capital is consumed in the course of providing service. Major financial and operational penalties will accrue if LECs set uneconomic manipulative rates.

In a hypothetical case where a LEC would artificially increase depreciation expenses in order to avoid sharing, invested capital would be recovered faster, producing understatements of net assets and shareholder return on equity. Higher depreciation expenses now could force sharing later, because reduced depreciation expense would eventually be required to match economic plant consumption. Another result would be a permanently lower rate base on which a future sharing threshold would be calculated.

Conversely, should a LEC hypothetically decrease depreciation expenses, capital would then be recovered at a rate slower than it might be economically consumed. Reserve imbalances could result, and could require recovery with higher depreciation rates than those used for economic recovery.

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29 Notice, para. 8, fn. 8; paras. 20, 40.

30 Notice, para. 20.

31 "Concurring Statement of Commissioner Ervin S. Duggan," December 10, 1992, (Commissioner Duggan Statement), pg. 2.

Assets not fully recovered could require write-offs and produce future losses.

Either of these scenarios would misrepresent the performance of a LEC to its owners, its customers, its regulators and the public, and is in no one's interest.

Other significant checks and balances prevent LECs from "manipulating" depreciation expenses.

First, the Communications Act provides for imprisonment or fines for those who willingly make false entries in any book of accounts.[32]

Also, competition itself is a most effective check and balance, because all carriers are incented to recover their large investments only over the period they can economically provide service.[33]

In addition, ethical, financial and regulatory principles obligate carriers to report expenses accurately. SNET must perform its accounting operations under Generally Accepted Accounting Principles (GAAP), which:

> require that this cost [of a productive facility] be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility ... in a systematic and rational manner.[34]

The Uniform System of Accounts (Part 32 of the Commission's rules) also adheres to GAAP,[35] and therefore

32 47 U.S.C. § 220(e). See also, 47 C.F.R. § 32.4.

33 See AT&T Petition, pg. 7.

34 Financial Accounting Standards Board (FASB), Accounting Research Bulletin (ARB) No. 43, chapter 9c, para. 5 (emphasis added).

35 See 47 C.F.R. §§ 32.12(a) and 32.16(a).

requires the booking of accurate depreciation expenses. GAAP also states that "consistent use of accounting principles from one accounting period to another" in needed to make data comparable from period to period.[36] Further, the Securities and Exchange Commission requires the disclosure of known and accurate financial condition of the company.[37] Financial auditors must express an opinion that their audits were conducted in accordance with generally accepted auditing standards, that the audited financial statements are free of material misstatement, and that they present fairly, in all material respects, the financial position of the company.

Lastly, the uncertainties of the future telecommunications marketplace make it nearly impossible to forecast interstate price cap earnings so accurately that manipulative depreciation rates could be set. Forecasting is simply not that precise. Given the long time-line for setting depreciation rates, a LEC cannot accurately forecast that far ahead to set "manipulative" rates in advance of high earnings. SNET notes that by the time a carrier realizes its earnings are so high to be motivated to increase depreciation expenses, not enough time would be left in the monitoring period to take the increased expenses in large enough quantities without being detected.[38]

SNET concludes that marketplace incentives, and regulatory and accounting checks and balances will assure appropriate

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[36] FASB APB No. 20, para. 15.

[37] The Securities Exchange Act of 1934, Sections 13 and 15(d).

[38] The Quarterly Reports (ARMIS FCC Report 43-01) filed by all Tier 1 LECs will signal any significant increase in depreciation expense by access category.

depreciation rates and expenses. SNET strongly believes that increasing depreciation expenses to avoid one-time sharing would in fact create more serious ongoing business problems. The Commission can be assured that price cap carriers cannot practically manipulate depreciation expenses to avoid sharing.

V. SNET Prioritizes The Four Options Proposed By The Commission.

The Commission has proposed "four options for simplifying the determination of depreciation expense: the basic factor range option, the range of rates option, the depreciation schedule option, and the price cap carrier option."[39] SNET discusses each option separately below, in the order in which it believes would best accomplish this proceeding's goals.

A. The Price Cap Carrier Option Best Advances The Commission's Objectives.

The Price Cap Carrier Option proposed by the Commission would allow price cap carriers to file depreciation rates with limited supporting data, but would continue Commission prescription of depreciation percentages.[40] The Commission would place the proposed rates on Public Notice, and would review comments and replies from the public, including state regulatory bodies, "to ascertain the reasonableness of the proposed changes."[41]

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[39] Notice, para. 9.

[40] Notice, para. 12.

[41] Notice, para. 41.

SNET strongly supports the adoption of this Option for several important reasons. First, the depreciation rates authorized by the Commission for price cap carriers have no effect upon the access charges consumers pay.[42] These carriers should then be able to set rates which recover their plant investment in an economic, cost-efficient and flexible manner. This Option best meets the Commission's objectives of simplification and cost reduction, for it reduces both carrier and Commission costs in the study and selection of rates. This Option places the responsibility for accurate depreciation rates where it belongs -- on the price cap carrier itself.[43]

Second, the large amount of documentation currently required is an anachronism in today's telecommunications environment. Because depreciation expense changes are endogenous, the Commission can still meet its mandated statutory obligation to "prescribe ... the percentages of depreciation"[44] without collecting volumes of data and analyzing them over a prolonged period. Price cap carriers would file their rate proposals annually, and after a period for comments and replies from the public and the states, the Commission would prescribe the rates to be used by each price cap carrier, as required by law. Each company would be approved separately. Depreciation issues would become more company-

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[42] 5 FCC Rcd at 6809 (1990).

[43] However, this is not a "rubber stamp" Option. (See Commissioner Duggan Statement, pg. 1.) The Commission, by statutory mandate, does in fact have the last word and final authority in prescribing all depreciation percentages.

[44] 47 U.S.C. § 220 (b).

specific and would therefore not slow the prescription of rates for another company, as could happen with today's processing.

Third, the Price Cap Carrier Option presents no conflict between the requirements of the Communications Act of 1934, as amended, and the proposed administration of that Option.[45] Each carrier's proposals would be subject to public comment and Commission review. The Commission also has the option of requesting further information from the carriers. The statute does not mandate how the Commission is to arrive at the rates it prescribes; the Commission can and does use discretion in the procedures it adopts. Until the Commission approves a carrier's depreciation rates, the carrier is statutorily prohibited from using the rates. The Commission always has "the last word" in the prescription of rates. Therefore, SNET believes that the Price Cap Carrier Option does not contravene Section 220(b) of the Communications Act.

Similarly, SNET believes that this Option's proposed notice and comment procedures are consistent with Section 220(i) of the Communications Act regarding notification to state commissions.[46] This Section does not require the Commission to follow any particular administrative process, or to define how it is to give each state "reasonable opportunity [to] receive and consider such views and recommendations."[47] The three-way meetings have evolved over time as one way the comments and views of states are considered, but there is no

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45 Notice, para. 41.

46 Notice, para. 42.

47 47 U.S.C. § 220(i).

statutory requirement that these meetings continue in the future. SNET does recommend that the Commission allow a sufficient period for notice and comment, in order to provide the states ample time to evaluate and respond to the carrier proposals.[48]

As discussed above, the Price Cap Carrier Option would not be a "rubber stamp" option, or "regulation by robots."[49] Many safeguards provide the oversight necessary for the Commission's prescription of timely, accurate and reasonable economic rates under this Option. The requirement for economic recovery and proper reporting are very powerful incentives for carriers to propose rates which are not "manipulative." With annual carrier filings of proposed rates, Commission review would take place every year, rather than once every three years.

In sum, SNET concludes that the Price Cap Carrier Option is the most effective of the four Options in meeting the Commission's objectives. It reduces the costs and regulatory burdens of both the carriers and the Commission, responds to and stimulates development of advanced technologies and competition, while still satisfying the requirements of the Act.

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[48] SNET notes here, however, that regulatory lag must be avoided in this environment of rapid technology change and accelerating competition. SNET also notes that any simplification of procedures that the Commission adopts for the federal jurisdiction would not preempt the practices, procedures or rates adopted by a state for application in its jurisdiction. SNET believes that for the benefits of the Commission's initiatives to be fully realized by the public, state regulatory bodies should also adopt prescription simplification measures.

[49] Commissioner Duggan Statement, pg. 1.

B. The Depreciation Rate Range Option Provides Simplification If All Accounts Are Included.

The Commission's Depreciation Rate Range Option would establish ranges for depreciation rates. Under this proposal, the Commission "would no longer focus on the basic factors used to determine the parameters for the depreciation rate formula [and] would not use the depreciation rate formula to derive depreciation rates."[50]

Should the Commission not adopt the Price Cap Carrier Option, SNET believes this Option would offer the Commission and the carriers administrative cost savings, while permitting carriers some flexibility in selecting rates that would be responsive to their individual plans and markets. This Option has the distinct advantage of discontinuing, for prescription purposes, complex and time-consuming mortality studies, and the tracking and analysis required to determine each of the parameters in the rate formula. Also, a carrier would not be required to file a rate parameter summary when selecting its rates from the ranges, which should be permitted annually.

There is no practical reason to prevent this Option from being applied to all accounts initially; the Commission's objectives would not be fully attained otherwise. SNET believes that under this Option, the greatest savings can be attained by defining the range for an account as the highest to the lowest of rates proposed by all carriers in an initializing submission, for all accounts. Should a carrier propose to select a rate for an account outside the established range, it should be able to submit a study with appropriate documentation

[50] Notice, paras. 10, 26.

and justification similar to the analysis submitted during a triennial proceeding today.

In order to avoid the potential problem of accumulated depreciation imbalances with this Option,[51] SNET recommends that the Commission prescribe a broad range of rates for each account. The range must be wide enough to permit a LEC to select a rate appropriate for that particular company. This range of rates will avoid a potential administrative quagmire, should carriers have to file petitions for waiver to use rates outside of narrowly established ranges.[52] In this way, a burdensome true-up plan would not have to be designed.

In sum, SNET believes the Depreciation Rate Range Option would have some potential for meeting the Commission's objectives, if sufficiently wide ranges of all carriers' proposed rates for all accounts are established initially.

C. The Basic Factors Range Option Would Provide Simplification If All Accounts Are Included.

The Commission's Basic Factors Range Option would establish ranges for each of the three basic factors that determine the parameters used in the current depreciation rate formula, which would continue to be used.[53]

SNET believes that the Price Cap Carrier Option has more advantages in meeting the Commission's objectives than this

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[51] Notice, para. 31.

[52] For example, if the Commission's proposal of one standard deviation from the average be implemented (Notice, para. 27), a subject carrier's proposed rate for that account could be outside that range, prompting a petition or waiver from that carrier, and bogging down the benefits of simplification for that carrier and the Commission.

[53] Notice, paras. 10, 13.

Option. However, administrative savings and reduced regulatory burdens compared to the current process could be available with this Option if the Commission implements it for all accounts.

Industry-wide data should serve as the initial basis for determining the Option's ranges, as the Commission proposes.[54] However, the ranges should not be based on currently prescribed rates because simplification should be implemented with up-to-date proposed rates, reflecting industry plans and market conditions. Current rates could contain reserve deficiencies, which should be eliminated in order to give carriers the opportunity to recover fully their invested capital under simplified procedures.

Also, this Option should be extended initially to all accounts and all carriers in order for the Commission and the carriers to experience the greatest cost savings and reductions of regulatory burdens as quickly as possible. SNET believes that there is no need for two sets of ranges (for LECs and for IXCs),[55] because the trends and uses of technology -- digital, and fiber, for example -- are the same for both. Also, the only dominant interexchange carrier, AT&T, is under price cap regulation, as is the overwhelming percentage of access investment for the LEC industry. There is no reason to retain any vestige of today's prescription process, or to delay the carriers and the Commission from obtaining the intended administrative cost savings. The Basic Factors Range Option (if implemented in this proceeding) should be made mandatory for

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54 Notice, para 14.

55 Notice, para 28.

all accounts and all carriers at the same time, to avoid the situation where some carriers would receive the benefits of simplification while others would not.

Some basic factors might have wide ranges due to the differing experiences from company to company. This is entirely appropriate and would produce the greatest benefits of simplification. It is not necessary for the Commission to "gain some experience" before establishing ranges for the price cap carrier accounts,[56] because depreciation expenses have no effect in a price cap environment.

SNET recommends that the Commission adopt a range sufficiently broad to encompass the highest and the lowest of all price cap carriers' proposed factors. With overly narrow ranges, the Commission and the carriers would potentially be faced with many petitions and waivers for factors outside a range. Not only would this eliminate the limited simplification of this Option, but would deny the objectives of this proceeding from being attained. The Commission should not require a carrier to adopt a factor within a range if that carrier can reasonably demonstrate that its own factor lies outside the range. The standards for such a demonstration should be limited to a study of that particular factor alone, based upon the present guidelines.

SNET concludes that the Basic Factors Range Option has potential for simplification, if the adopted ranges are broad, are based upon proposed factors, and are implemented for all accounts.

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56 Notice, para. 16.

D. The Depreciation Schedule Option Should Not Be Adopted.

The Commission's Depreciation Schedule Option would establish a depreciation schedule for each plant account, based upon a Commission-specified service life, retirement pattern, and salvage value for each account; a carrier would then apply the schedule for each account to their investment in that account by vintage.[57]

SNET recommends that the Commission not adopt this Option. If SNET understands this Option correctly, it appears that all carriers would be required to use the same Commission-determined schedule. SNET believes that this would be an arbitrary way of proceeding, and inhibit a carrier from reflecting its own pattern of investments and retirements. One fixed schedule for all carriers would be rigid and inflexible, and not tied to a carrier's actual plans.

This plan seems to require the application of rates to each vintage in an account. As this is not done today, the carriers would have to do a very large amount of up-front systems design and processing modifications before this Option could be implemented. This Option denies the savings available with the other Options, and forecloses the carriers from flexibilities available to their competitors.

The Commission is correct that this option deviates greatly from accuracy in matching allocation of costs to actual plant consumption.[58] For this reason alone, SNET cannot support the implementation of the Depreciation Schedule Option, whether

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57 Notice, para. 33.

58 Ibid.

for new plant on a going-forward basis, or for vintages of embedded plant in a particular account.

While this Option apparently has an advantage of producing predictable expense levels, depreciation expense certainty is not a valid goal in and of itself, as discussed above.[59]

For these reasons, SNET recommends that the Commission not adopt the Depreciation Schedule Option.

VI. Salvage And Cost Of Removal Should Not Be Changed.

The Commission seeks comment on a proposal to further simplify the depreciation process by requiring that carriers not consider salvage in the depreciation process, and by requiring them to book the cost of removal and salvage as current period charges and credits.[60]

SNET believes that such a change would not simplify its own depreciation process, and could produce additional administrative burdens. The estimation of cost of removal, for example, would move from the capital recovery discipline to the network organization, and would require budgeting removal costs as current expenses. This function increases engineering costs without any real benefits.

Further, the large expenditure at the end of an asset's service life for removal costs would distort the

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[59] SNET Comments, pg. 4, above.

[60] Notice, para. 43.